

Report
of the
Examination of
MGIC Assurance Corporation
Milwaukee, Wisconsin
As of December 31, 2002

TABLE OF CONTENTS

	Page
I. INTRODUCTION	3
II. HISTORY AND PLAN OF OPERATION	5
III. MANAGEMENT AND CONTROL	8
IV. AFFILIATED COMPANIES	10
V. REINSURANCE	19
VI. FINANCIAL DATA	20
VII. SUMMARY OF EXAMINATION RESULTS	36
VIII. CONCLUSION.....	37
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	39
X. ACKNOWLEDGMENT	40



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

August 22, 2003

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

Honorable Alfred W. Gross
Chairman, Financial Condition (E)
Committee, NAIC
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
Commonwealth of Virginia
Tyler Building
Post Office Box 1157
Richmond, Virginia 23218

Honorable Susan F. Cogswell
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
State of Connecticut
153 Market St. 7th Floor
Hartford, Connecticut 06103

Honorable Sally McCarty
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Indiana
311 West Washington St., Suite 300
Indianapolis, Indiana 46204-2787

Honorable John Morrison
Secretary, Western Zone, NAIC
Commissioner of Insurance
State of Montana
840 Helena Avenue
Helena, Montana 59601

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance (the "Commissioner"), a compliance examination has been made of the affairs and financial condition of:

MGIC ASSURANCE CORPORATION
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of MGIC Assurance Corporation ("MAC," or the "company") was conducted in 1998 and 1999 as of December 31, 1997. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain

documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was originally incorporated in 1937 as an Oklahoma-domiciled insurer, under the name Insurers Indemnity and Insurance Company. The company was acquired by the Equitable Investment Corporation (“EIC”) in 1979, and the name of the company was changed to Equitable General Insurance Company of Oklahoma. The company’s immediate parent following its acquisition by EIC was Equitable Casualty Insurance Company (“ECIC”).

In 1986, ECIC was purchased by Financial Security Assurance Inc. (“FSA”), a New York-domiciled financial guaranty insurer. The ultimate controlling entity of FSA was Financial Security Assurance Holdings Ltd. (“FSA Holdings”). Prior to the sale of ECIC to FSA, all of the insurance liabilities of the company and ECIC were divested. As of the date of the sale, the company changed its name to Financial Security Assurance of Oklahoma, Inc. In 1989, FSA Holdings was acquired by U S WEST, Inc., a Colorado corporation.

Mortgage Guaranty Insurance Corporation (“MGIC”) purchased the company in 1995. The company redomesticated to Wisconsin and changed its name to MGIC Assurance Corporation effective November 18, 1996. In 1997, MGIC contributed 100% of the issued and outstanding capital stock of MGIC Assurance Corporation to the MGIC subsidiary, MGIC Surety Corporation (“Surety”). MGIC Surety Corporation was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MGIC Assurance Corporation, transferred to MGIC.

The company was established by MGIC to engage as a direct writer of residential mortgage guaranty insurance on second mortgage and home equity junior liens accounted for through the MAC segregated account. The business plan of the company was to serve as a mortgage guaranty insurer of junior lien loans in jurisdictions that do not require a mortgage guaranty company to be a monoline insurer. Concurrent with MGIC’s establishment of MAC, MGIC also established MGIC Credit Assurance Corporation (“MCAC”) to engage in residential mortgage guaranty of junior liens in those states in which only a monoline insurer is permitted to insure mortgage guaranty risks.

MAC established a segregated account in 1997 pursuant to the requirements of s. 611.24 (1), Wis. Statutes and s. Ins 3.09 (12)(g), Wis. Adm. Code, through which MAC is authorized to conduct junior lien mortgage guaranty business. MAC commenced writing direct business in 1997, and continued to issue new policies of mortgage guaranty insurance on junior liens through December 31, 2001. MAC and MCAC each terminated writing new business effective January 1, 2002. MAC's current portfolio of insurance risks consists solely of renewal business on existing policies written through the company's segregated account, and the company's entire book of business is in run-off. The company is considering potential opportunities to initiate writing other property and casualty lines, other than mortgage guaranty business, in the company's general account. Subsequent to examination fieldwork, the Commissioner approved a plan proposed by MAC and MCAC to transfer the mortgage guaranty business of MAC's segregated account to MCAC.

MAC is a member of a holding company system, and ultimate ownership and control of the company is held by MGIC Investment Corporation ("MGIC Investment"). MAC does not have any employees, and all of its business operations are performed by MGIC pursuant to an intercompany services agreement. Further discussion of the MGIC Investment Corporation holding company, description of MAC's significant affiliates, and description of the company's intercompany agreements are included in the section of this report captioned "Affiliated Companies."

In 2002 the company wrote direct premium in the following jurisdictions:

Pennsylvania	\$3,216,439	52.2%
Colorado	1,893,022	30.7%
District of Columbia	254,024	4.1%
Indiana	218,444	3.5%
All others	<u>584,600</u>	<u>9.5 %</u>
	<u>\$6,166,529</u>	<u>100.0%</u>

MAC is licensed 45 states and the District of Columbia, and during 2002 the company wrote direct premiums in 22 jurisdictions.

In 2002, the company wrote \$6,166,529 of gross and net mortgage guaranty insurance premiums. The growth of the company through year-end 2001 and subsequent run-off is discussed in the Financial Data section of this report.

III. MANAGEMENT AND CONTROL

Board of Directors

The MGIC Assurance Corporation board of directors consists of seven members, each of whom is elected annually from within the senior executive management of MGIC Investment Corporation. MAC directors are elected to serve a one-year term. Each member of the MAC board of directors also serves as a member of other boards of directors in the holding company group, and receives no additional compensation for services performed as a director of MAC.

Currently the MAC board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Curt S. Culver Nashotah, WI	President and Chief Executive Officer MGIC Investment Corporation	2004
John D. Fisk Kensington, MD	Executive Vice President – Strategic Planning MGIC Investment Corporation	2004
Joseph J. Komanecki Delafield, WI	Senior Vice President, Controller and Chief Accounting Officer	2004
Jeffrey H. Lane Glendale, WI	Senior Vice President, General Counsel and Secretary MGIC Investment Corporation	2004
J. Michael Lauer Elm Grove, WI	Executive Vice President and Chief Financial Officer MGIC Investment Corporation	2004
Patrick Sinks River Hills, WI	Senior Vice President – Field Operations MGIC Investment Corporation	2004
Joseph J. Ziino, Jr. Brookfield, WI	Senior Vice President – Regulatory Relations, Associate General Counsel and Assistant Secretary MGIC Investment Corporation	2004

Officers of the Company

MGIC Assurance Corporation officers are appointed by the company's board of directors at the annual meeting of the board, and serve a one-year term of office. Senior officers serving at the time of this examination are listed below. Each MAC officer is employed by MGIC, and a portion of the MGIC compensation costs for the respective MAC officers is allocated to MAC through an affiliated servicing agreement. The annual compensation paid to MAC officers in 2002 is reported in the concurrent examination report of MGIC, under the caption "Officers of the Company."

Name	Office
Curt S. Culver	President and Chief Operating Officer
John D. Fisk	Executive Vice President – Strategic Planning
J. Michael Lauer	Executive Vice President and Chief Financial Officer
James S. MacLeod	Executive Vice President – Field Operations
Lawrence J. Pierzchalski	Executive Vice President – Risk Management
Joseph J. Komanecki	Senior Vice President, Controller and Chief Accounting Officer
Jeffrey H. Lane	Senior Vice President, General Counsel and Assistant Secretary
Patrick Sinks	Senior Vice President – Field Operations
Joseph J. Ziino, Jr.	Senior Vice President – Regulatory Relations Associate General Counsel and Secretary
James A. Karpowicz	Vice President and Treasurer

Committees of the Board

The MAC bylaws allow for the formation of certain committees by the board of directors. The company had established one committee of the board at the time of the examination, listed below:

Securities Investment Committee

J. Michael Lauer
Joseph J. Komanecki
Joseph J. Ziino, Jr.

IV. AFFILIATED COMPANIES

MGIC Assurance Corporation is a member of a holding company system. The ultimate parent of the holding company system is MGIC Investment Corporation.

The following organizational chart depicts the relationships among the affiliates in the holding company group. Each respective subsidiary is a wholly owned affiliate within the MGIC enterprise except as noted otherwise. A brief description of the significant affiliates of MGIC Assurance Corporation and a summary of significant affiliated agreements follows the organizational chart.

Organizational Chart As of December 31, 2002

- MGIC Investment Corporation
 - Mortgage Guaranty Insurance Corporation
 - MGIC Reinsurance Corporation of Wisconsin
 - MGIC Mortgage Insurance Corporation
 - MGIC Mortgage and Consumer Asset II LLC (Note #1)
 - MGIC Credit Assurance Corporation
 - MGIC Assurance Corporation
 - MGIC Assurance Corporation Segregated Account
 - MGIC Reinsurance Corporation of Vermont
 - GHR Systems, Inc. (12% ownership interest)
 - MGIC Indemnity Corporation
 - eMagic.com
 - Sherman Financial Group LLC (45.5% ownership interest)
 - Equix Financial Services LLC (70.5% ownership interest)
 - MGIC Mortgage and Consumer Asset I LLC (Note #1)
 - CMI Investors LP 5 (99% ownership interest)
 - CMI Investors LP 8 (99% ownership interest)
 - CMI Investors LP 9 (99% ownership interest)
 - CMI Investors LP 2 (99% ownership interest)
 - Credit-Based Asset Servicing & Securitization LLC (45.9% ownership interest)
 - Litton Loan Servicing LP
- MGIC Reinsurance Corporation
- MGIC Mortgage Reinsurance Corporation
- MGIC Residential Reinsurance Corporation
- MGIC Mortgage Marketing Corporation
- MGIC Investor Services Corporation
- MGIC Insurance Services Corporation
- MGIC Mortgage Securities Corporation
- MGIC OneStop Holdings LLC
 - OneStop Shop, Inc. (24% ownership interest)

Note # 1: MGIC Mortgage and Consumer Asset II LLC holds a 1% ownership interest in CMI Investors LP's; the remaining 99% interest is held in MGIC Mortgage and Consumer Asset I LLC.

MGIC Investment Corporation (“MGIC Investment”)

MGIC Investment was incorporated in Wisconsin on June 22, 1984 under the name Management Financing Corporation. MGIC Investment was established as a holding company to consolidate the ownership and capitalization of the legal entities within the MGIC enterprise. The initial capital funding of Management Financing Corporation was provided by The Northwestern Mutual Life Insurance Company and by senior executive officers of MGIC. The holding company name was changed to MGIC Investment Corporation effective March 1, 1985. An initial public offering of MGIC Investment common capital stock was completed in August of 1991, and a second public offering was completed in June 1992. The issued and outstanding shares of MGIC Investment common capital stock are traded on the New York Stock Exchange.

As of February 15, 2003, Legg Mason, Inc., an investment management company, held a 14.59% ownership interest in the outstanding MGIC Investment Corporation capital stock, and Janus Capital Management LLC held a 12.16% ownership interest in MGIC Investment. Officers and directors of MGIC Investment Corporation, who comprise 17 individual shareholders, in aggregate held 1.26% ownership interest in MGIC Investment. Interests held by officers and directors included 31,085 share units held under MGIC Investment Corporation's directors' deferred compensation plan for which the holders currently do not have rights to exercise investment or voting power. Other investors, each of whom individually owned less than a 5% interest in MGIC Investment, held the remaining outstanding shares of MGIC Investment common capital stock.

The MGIC enterprise is principally engaged in writing mortgage guaranty insurance on residential mortgage loans. MGIC Investment Corporation insurance subsidiaries provide mortgage guaranty insurance to mortgage lenders, and its non-insurance operating subsidiaries provide products and services to the mortgage finance industry, including contract underwriting, mortgage portfolio analysis, secondary market mortgage brokerage and trading services, and internet-based technology services.

As of December 31, 2002, MGIC Investment's consolidated GAAP basis audited financial statements reported total assets of \$5,300,303,000, total liabilities of \$1,905,111,000, and

total shareholders' equity of \$3,395,192,000. Operations for 2002 provided reported net income of \$629,191,000.

Mortgage Guaranty Insurance Corporation ("MGIC")

MGIC was incorporated under the laws of Wisconsin on February 20, 1979 as Liberty Mortgage Insurance Corporation ("LMIC"). LMIC was originally owned by Verex Corporation and was acquired by MGIC Investment Corporation in November 1984. The name Liberty Mortgage Insurance Corporation was changed to Mortgage Guaranty Insurance Corporation on March 1, 1985, when MGIC began writing new business.

MGIC formerly had two classes of issued and outstanding common capital stock, Class A common stock and Class B common stock. MGIC Investment Corporation retained ownership of the MGIC Class B common stock, and effective September 30, 1985 contributed 100% of the MGIC Class A common stock to the former MGIC Investment subsidiary Mortgage Guaranty Reinsurance Corporation ("MGRC"). Effective May 25, 1999, MGRC was dissolved pursuant to a plan of voluntary dissolution and liquidation approved by the Commissioner. Upon the dissolution of MGRC, all 35,000 issued and outstanding shares of MGIC Class B common stock held by MGIC Investment were redeemed at a price of \$1,000 per share, and the remaining assets and liabilities of the liquidated MGRC legal entity including 100% of the MGIC Class A common capital stock transferred to MGIC Investment Corporation. MGIC's capital stock presently is comprised solely of one class of common stock, wholly owned by MGIC Investment Corporation.

MGIC issues residential mortgage guaranty insurance in 50 states, the District of Columbia, Puerto Rico, and Bermuda. MGIC serves as the lead operating company in the MGIC group, and provides administrative and managerial services to its affiliates. MGIC's direct and indirect costs incurred in providing services to its affiliates are allocated to the respective affiliates pursuant to intercompany services agreements. Excess of loss insurance coverages on risks written by MGIC are ceded to four MGIC affiliate insurers to enable MGIC to comply with statutory restrictions in some states that limit an insurer's net retention of mortgage guaranty insurance for any one risk to not more than 25% of the total indebtedness to the insured.

As of December 31, 2002, MGIC's statutory financial statements reported total admitted assets of \$5,748,861,544, total liabilities of \$4,200,854,153, and policyholders' surplus of \$1,548,007,391. Operations for 2002 provided reported net income of \$256,475,739.

MGIC Reinsurance Corporation of Wisconsin ("MRCW")

MRCW was incorporated under the laws of Wisconsin on February 15, 1996, and commenced operations on April 1, 1996. MRCW was established to provide reinsurance to MGIC for primary and pool mortgage guaranty policy liabilities in excess of 25% of the total indebtedness to the insured, for mortgage guaranty policies written in all jurisdictions except six states. MRCW assumes all of its business from MGIC, and does not cede any business.

As of December 31, 2002, MRCW's statutory financial statements reported total admitted assets of \$648,397,711, total liabilities of \$200,721,132, and policyholder's surplus of \$447,676,579. Operations for 2002 provided reported net income of \$27,646,621.

MGIC Mortgage Insurance Corporation ("MMIC")

MMIC was incorporated under the laws of Wisconsin on April 30, 1987. MMIC was established to be an insurer that maintains a Standard and Poor's Corporation AAA claims paying ability rating, to provide the MGIC group with the facility to write mortgage guaranty insurance on loans that require the insurer to be rated AAA. MMIC assumes coverages issued by MGIC, and does not write any direct insurance business. MMIC has not assumed any new risks from MGIC for the past several years.

Prior to 1996, MMIC was a wholly owned subsidiary of MGIC. In 1996 MGIC contributed 100% of the common capital stock of MMIC to MGIC Reinsurance Corporation of Wisconsin.

As of December 31, 2002, MMIC's statutory financial statements reported total admitted assets of \$79,579,265, total liabilities of \$11,512,325, and policyholder's surplus of \$68,066,940. Operations for 2002 provided reported net income of \$4,535,872.

MGIC Credit Assurance Corporation ("MCAC")

MCAC was organized under the laws of Wisconsin on April 30, 1997, and commenced business on May 21, 1997. MCAC is a wholly owned subsidiary of MGIC, and was

established to write mortgage guaranty insurance for lenders in certain states on second mortgages and home equity lines of credit. MCAC commenced writing direct business in 1998, and terminated writing new business effective January 1, 2002. MCAC's current portfolio of insurance risks consists solely of renewal business on existing policies, and MCAC's entire book of business is in run-off.

As of December 31, 2002, MCAC's statutory financial statements reported total admitted assets of \$36,120,251, total liabilities of \$14,915,547, and policyholder's surplus of \$21,204,704. Operations for 2002 resulted in a reported net loss of \$5,573,957.

MGIC Reinsurance Corporation of Vermont ("MRCV")

MRCV was established in December 1999 as a Vermont-domiciled insurer, to operate as a sponsored captive insurance company pursuant to Title 8, Chapter 141 of the State of Vermont Statutes. The Vermont Statutes permit a licensed insurer and participating sponsors to establish a sponsored captive reinsurance company to reinsure business written by the licensed insurer. MRCV reinsures MGIC mortgage guaranty risks on loans that were originated, purchased, or serviced by mortgage lenders which participate in MRCV captive reinsurance. For the business assumed by MRCV on behalf of a participating sponsor, MRCV establishes a protected cell account in which assets of each such participant are separately maintained and accounted for with respect to the participant's liabilities for mortgage guaranty risks assumed by the participant. A separate participation agreement is established between MRCV and each respective participant. By establishing a participation agreement with MRCV, a lender which desires to engage in captive reinsurance is able to participate as a sponsored captive and is not required to establish a separate insurance or reinsurance legal entity. As of year-end 2002, MRCV had nine participation agreements in effect.

As of December 31, 2002, MRCV's statutory financial statements reported total admitted assets of \$3,971,536, including \$1.3 million of trust assets, total liabilities of \$1,073,387, and policyholder's surplus of \$2,898,149. Operations for 2002 produced net income of \$776,615.

MGIC Indemnity Corporation (“MIC”)

MGIC Indemnity Corporation is a Wisconsin-domiciled mortgage guaranty insurer originally incorporated in Wisconsin in 1956 under the name Mortgage Guaranty Insurance Corporation (“Old MGIC”). Old MGIC was a subsidiary of the former MGIC Investment Corporation (“Old MGIC Investment,” the pre-1985 MGIC Investment Corporation). Ownership of Old MGIC Investment and its subsidiaries including Old MGIC was purchased by Baldwin-United Corporation (“Baldwin”) in 1982. Baldwin became financially impaired in 1983 due in part to excess corporate debt, and filed petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code.

In 1984 the Commissioner approved a plan (the “Plan”) whereby the ongoing successful business enterprise of Old MGIC could be protected from the bankruptcy of Baldwin and be continued in a successor legal entity. Pursuant to the Plan, effective February 28, 1985 the business operations of Old MGIC were transferred to a successor insurer named Mortgage Guaranty Insurance Corporation (the present-day MGIC), Old MGIC changed its name to Wisconsin Mortgage Assurance Corporation (“WMAC”), and WMAC entered into court-ordered liquidation proceedings under the supervision of the Commissioner.

Under the 1985 liquidation proceedings, WMAC discontinued issuance of new insurance business, its existing book of business entered run-off status managed by the present day MGIC, and 100% of WMAC’s existing net retained liability for insurance risks was ceded to a group of international reinsurers under quota share reinsurance treaties. In December 1998, the WMAC liquidation proceedings were terminated and WMAC entered rehabilitation proceedings. Mortgage Guaranty Insurance Corporation (the present-day MGIC) purchased WMAC as of December 31, 1998 under a plan of rehabilitation approved by the Commissioner. WMAC changed its name to MGIC Indemnity Corporation effective June 1, 2000. MIC has not written any new business since 1985, and its entire portfolio of business is comprised of renewal policies in run-off. All claims have been paid by WMAC or its reinsurers, and only a small amount of insurance inforce remains in run-off.

As of December 31, 2002, MIC's statutory financial statements reported total admitted assets of \$20,154,586, total liabilities of \$273,834, and policyholder's surplus of \$19,880,752. Operations for 2002 provided reported net income of \$646,092.

eMagic.com, LLC ("eMagic")

eMagic.com, LLC was organized in February 2000 to provide business-to-business interactive electronic services to the mortgage finance industry. eMagic products and services provide an internet technological facility to lenders, mortgage service providers, and other mortgage institutions, to access wholesaler/investor products and vendor services that pertain to the origination of mortgage loans.

As of December 31, 2002, eMagic.com, LLC's GAAP basis financial statements reported total admitted assets of \$1,753,000, total liabilities of \$1,148,000, and members' equity of \$604,000. Operations for 2002 resulted in a reported net loss of \$10,577,000.

Credit-Based Asset Servicing & Securitization LLC ("C-BASS")

C-BASS is a joint venture in which MGIC had a 45.9% ownership interest as of year-end 2002. The venture was formed in July 1996 to engage in the acquisition and resolution of delinquent or otherwise credit sensitive single family mortgage loans. C-BASS purchases, sells, and securitizes residential mortgage loans, seller-financed notes, mortgage-backed securities, and other asset-backed debt securities.

As of December 31, 2002, C-BASS's GAAP basis audited financial statements reported total assets of \$1,754,392,000, total liabilities of \$1,384,855,000, and owners' equity of \$369,537,000. Operations for 2002 provided reported net income of \$138,335,000.

MGIC Reinsurance Corporation ("MGIC Re")

MGIC Re was incorporated under the laws of Wisconsin on February 21, 1985, and commenced business on March 1, 1985. MGIC Re was organized to provide MGIC with excess of loss reinsurance coverage. MGIC Re provides reinsurance to MGIC on primary and pool mortgage guaranty coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MGIC Re assumes all of its business from MGIC.

As of December 31, 2002, MGIC Re's statutory financial statements reported total admitted assets of \$167,387,887, total liabilities of \$108,714,843, and policyholder's surplus of \$58,673,044. Operations for 2002 provided reported net income of \$5,983,955.

MGIC Mortgage Reinsurance Corporation ("MMRC")

MMRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business activity on that date. MMRC was organized to provide MGIC with excess of loss reinsurance coverage. MMRC provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MMRC's reinsurance on any loan is limited to a maximum of 25% of the total indebtedness to the insured. MMRC assumes all of its business from MGIC, and does not cede any business.

As of December 31, 2002, MMRC's statutory financial statements reported total admitted assets of \$16,101,360, total liabilities of \$2,088,409, and policyholder's surplus of \$14,012,951. Operations for 2002 provided reported net income of \$1,159,246.

MGIC Residential Reinsurance Corporation ("MRRC")

MRRC was organized under the laws of Wisconsin on July 1, 1996, and commenced business on that date. MRRC was organized to provide MGIC with excess of loss reinsurance coverage. MGIC Residential Reinsurance Corporation provides reinsurance to MGIC on mortgage guaranty primary and pool coverage in excess of 25% of the total indebtedness to the insured on business written in six states. MRRC reinsurance on any loan is limited to a maximum of 25% the total indebtedness to the insured. MRRC assumes all of its business from MGIC and does not cede any of its business.

As of December 31, 2002, MRRC's statutory financial statements reported total admitted assets of \$15,925,334, total liabilities of \$2,070,188, and policyholder's surplus of \$13,855,146. Operations for 2002 provided reported net income of \$1,085,987.

Affiliated Agreements

1. 1986 Tax Sharing Agreement – The MGIC enterprise maintains a Tax Sharing Agreement whereby MGIC Investment Corporation and specified subsidiaries that qualify under the Internal Revenue Code join in filing a consolidated federal income tax return. Tax benefit or liability attributed to each respective legal entity under the consolidated income tax return is based on the amount of benefit or liability that would otherwise be applicable if the respective legal entity filed a separate United States Corporation Income Tax Return. For purposes of income tax sharing, each subsidiary computes its own income on a separate company basis, and each computes its own respective taxes by applying on a separate company basis the provisions of the Internal Revenue Code. The Tax Sharing Agreement is amended from time-to-time as necessary to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement.
2. 1996 Servicing Agreement – MGIC maintains a Servicing Agreement under which MGIC performs management and administrative services for the benefit of various affiliates within the MGIC holding company. Services provided by MGIC to its affiliates include provision of office space and employees; administration of underwriting, risk management and claims; performance as agent for funds collection and disbursement; maintenance of investment portfolios and execution of investment transactions; maintenance of depository accounts; maintenance of books and records including financial records; and the preparation and delivery of reports, tax returns, and documents and filings as required. MGIC's direct costs and indirect expenses incurred in providing services to the individual affiliates are allocated to the respective affiliates. The Servicing Agreement is amended from time-to-time as necessary to add or delete the participation of applicable affiliated entities, and currently provides that each of the Wisconsin-domiciled MGIC insurers is a participant in the agreement.

V. REINSURANCE

MGIC Assurance Corporation has not entered into any reinsurance treaties, and has not engaged in any reinsurance transactions for the assumption or cession of insurance risk.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System ("IRIS") ratio results for the period under examination, and the company's compulsory and security surplus calculation and minimum policyholder position calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

MGIC Assurance Corporation
General Account
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$6,655,859		\$6,655,859
Cash	1,513,478		1,513,478
Federal and foreign income tax recoverable and interest thereon	2,137		2,137
Interest, dividends, and real estate income due and accrued	129,576		129,576
Write-ins for other than invested assets			
Total assets of segregated account	<u>26,983,542</u>	<u> </u>	<u>26,983,542</u>
Total Assets	<u>\$35,284,592</u>	<u>\$ 0</u>	<u>\$35,284,592</u>

MGIC Assurance Corporation
Segregated Account
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$24,602,968		\$24,602,968
Cash	1,737,807		1,737,807
Agents' balances or uncollected premiums:			
Premiums and agents' balances in course of collection	138,541		138,541
Federal and foreign income tax recoverable and interest thereon	141,142		141,142
Interest, dividends, and real estate income due and accrued	<u>363,084</u>	<u> </u>	<u>363,084</u>
Total Assets	<u>\$26,983,542</u>	<u>\$ 0</u>	<u>\$26,983,542</u>

MGIC Assurance Corporation
General Account
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Federal and foreign income taxes		\$ 52,421
Payable to parent, subsidiaries, and affiliates		11,474
Write-ins for liabilities:		
Total liabilities of segregated account		<u>12,452,485</u>
Total Liabilities		12,516,380
Write-ins for special surplus funds:		
Surplus of segregated account	\$14,531,057	
Common capital stock	3,500,000	
Gross paid in and contributed surplus	5,138,289	
Unassigned funds (surplus)	<u>(401,134)</u>	
Surplus as Regards Policyholders		<u>22,768,212</u>
Total Liabilities and Surplus		<u>\$35,284,592</u>

MGIC Assurance Corporation
Segregated Account
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Losses		\$11,258,266
Loss adjustment expenses		100,410
Taxes, licenses, and fees (excluding federal and foreign income taxes)		32,843
Federal and foreign income taxes		280,144
Unearned premiums		161,471
Remittances and items not allocated		26,260
Payable to parent, subsidiaries, and affiliates		<u>593,091</u>
Total Liabilities		12,452,485
Write-ins for special surplus funds:		
Permanent surplus	\$10,000,000	
Unassigned funds (surplus)	<u>4,531,057</u>	
Surplus as Regards Policyholders		<u>14,531,057</u>
Total Liabilities and Surplus		<u>\$26,983,542</u>

**MGIC Assurance Corporation
General Account
Summary of Operations
For the Year 2002**

Underwriting Income

Deductions:

Other underwriting expenses incurred	<u>\$ 162,977</u>
--------------------------------------	-------------------

Net underwriting loss	(162,977)
-----------------------	-----------

Investment Income

Net investment income earned	\$359,417	
Net realized capital gains	<u>65,294</u>	
Net investment gain		<u>424,711</u>

Net income before federal and foreign income taxes	261,734
--	---------

Federal and foreign income taxes incurred	<u>29,000</u>
---	---------------

Net Income	<u><u>\$232,734</u></u>
------------	-------------------------

**MGIC Assurance Corporation
Segregated Account
Summary of Operations
For the Year 2002**

Underwriting Income

Premiums earned		\$6,286,269
-----------------	--	-------------

Deductions:

Losses incurred	\$7,348,441	
Loss expenses incurred	155,975	
Other underwriting expenses incurred	904,547	
Write-ins for underwriting deductions:		
Contingency reserve contribution less withdrawal	<u>(2,161,088)</u>	
Total underwriting deductions		<u>6,247,875</u>

Net underwriting gain		38,394
-----------------------	--	--------

Investment Income

Net investment income earned	1,050,971	
Net realized capital gains or (losses)	<u>36,787</u>	
Net investment gain or (loss)		1,087,758

Other Income

Net gain or (loss) from agents' or premium balances charged off		<u>51,066</u>
---	--	---------------

Net income (loss) after dividends to policyholders but before federal and foreign income taxes		1,177,218
Federal and foreign income taxes incurred		<u>154,000</u>

Net Income		<u>\$1,023,218</u>
------------	--	--------------------

MGIC Assurance Corporation
General Account
Cash Flow
For the Year 2002

Deduct:		
Underwriting expenses paid		<u>\$ 162,977</u>
Cash from underwriting		(162,977)
Net investment income		413,924
Deduct:		
Federal income taxes paid		<u>17,708</u>
Net cash from operations		233,239
Proceeds from investments sold, matured, or repaid:		
Bonds	\$1,354,163	
Cost of investments acquired (long-term only):		
Bonds	<u>1,012,640</u>	
Net cash from investments		341,523
Cash applied for financing and miscellaneous uses:		
Net transfers to affiliates		<u>(18,679)</u>
Net change in cash and short-term investments		556,083
Reconciliation		
Cash and short-term investments,		
December 31, 2001		<u>957,395</u>
Cash and short-term investments,		
December 31, 2002		<u>\$1,513,478</u>

MGIC Assurance Corporation
Segregated Account
Cash Flow
For the Year 2002

Premiums collected net of reinsurance		\$6,626,155
Deduct:		
Loss and loss adjustment expenses paid (net of salvage or subrogation)		4,538,629
Underwriting expenses paid		<u>981,160</u>
Cash from underwriting		1,106,366
Net investment income		998,388
Other income (expenses):		
Agents' balances charged off		51,066
Deduct:		
Federal income taxes paid		<u>26,587</u>
Net cash from operations		2,129,233
Proceeds from investments sold, matured, or repaid:		
Bonds	\$13,465,265	
Cost of investments acquired (long-term only):		
Bonds	<u>16,528,238</u>	
Net cash from investments		(3,062,973)
Cash provided from financing and miscellaneous sources:		
Net transfers from affiliates	200,095	
Other cash provided	<u>26,260</u>	
Net cash from financing and miscellaneous sources		<u>226,355</u>
Net change in cash and short-term investments		(707,385)
Reconciliation		
Cash and short-term investments, December 31, 2001		<u>2,445,192</u>
Cash and short-term investments, December 31, 2002		<u>\$1,737,807</u>

MGIC Assurance Corporation
General Account
Compulsory and Security Surplus Calculation
December 31, 2002

Assets	\$8,301,050
Liabilities	<u>63,895</u>
Adjusted surplus	8,237,155
Compulsory surplus (subject to A minimum of \$2 million)	<u>\$2,000,000</u>
Compulsory surplus excess	<u>\$6,237,155</u>
Adjusted surplus	\$8,237,155
Security surplus: (140% of compulsory surplus, the factor reduced by 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%, subject to a minimum of \$2.8 million)	<u>2,800,000</u>
Security surplus excess	<u>\$5,437,155</u>

**MGIC Assurance Corporation
Segregated Account
Policyholder Position Calculation
December 31, 2002**

Surplus as regards policyholders	\$14,531,057
Contingency Reserve	<u>5,537,771</u>
Total policyholders' position	20,068,828
Net minimum policyholders' position	
Group of Loans:	
Equity less than 20%, or equity plus prior insurance or a deductible less than 25%	<u>\$5,137,088</u>
Minimum policyholder position	<u>5,137,088</u>
Excess of total policyholders' position over minimum policyholders' position	<u>\$14,931,740</u>

MGIC Assurance Corporation
General Account
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements for its general account:

	1998	1999	2000	2001	2002
Surplus, beginning of year	\$11,958,584	\$17,981,693	\$18,753,674	\$19,700,759	\$21,458,260
Net income	384,645	239,047	222,551	307,084	232,734
Change in net deferred income tax				(5,000)	(12,000)
Cumulative effect of changes in accounting principles				(35,421)	
Write-ins for gains and (losses) in surplus:					
Change in surplus of segregated account	5,638,464	532,934	724,534	1,490,838	1,089,218
Surplus, end of year	<u>\$17,981,693</u>	<u>\$18,753,674</u>	<u>\$19,700,759</u>	<u>\$21,458,260</u>	<u>\$22,768,212</u>

MGIC Assurance Corporation
Segregated Account
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements for its segregated account:

	1998	1999	2000	2001	2002
Surplus, beginning of year	\$5,055,069	\$10,693,533	\$11,226,467	\$11,951,001	\$13,441,839
Net income	638,464	532,934	724,534	1,415,696	1,023,218
Change in net deferred income tax					66,000
Cumulative effect of changes in accounting principles				75,142	
Surplus adjustments:					
Paid in	5,000,000				
Surplus, end of year	<u>\$10,693,533</u>	<u>\$11,226,467</u>	<u>\$11,951,001</u>	<u>\$13,441,839</u>	<u>\$14,531,057</u>

**MGIC Assurance Corporation
General Account
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2002**

The NAIC Insurance Regulatory Information System ("IRIS") results for the company's general account during the years under examination are summarized in the following table. IRIS data for the company is not available for the year 1998. The unusual IRIS results during the period are denoted with asterisks, and are discussed following the table of IRIS data.

	Ratio	1999	2000	2001	2002
#1	Gross Premium to Surplus	0%	0%	0%	0%
#2	Net Premium to Surplus	0%	0%	0%	0%
#3	Change in Net Writings	0%	0%	0%	0%
#4	Surplus Aid to Surplus	0%	0%	0%	0%
#5	Two-Year Overall Operating Ratio	0%	0%	0%	0%
#6	Investment Yield	5%	5.6%	5.2%	4.5%*
#7	Change in Surplus	4%	5%	9%	6%
#8	Liabilities to Liquid Assets	61%	118%*	143%*	151%*
#9	Agents' Balances to Surplus	0%	0%	0%	0%
#10	One-Year Reserve Devel. to Surplus	0%	0%	0%	0%
#11	Two-Year Reserve Devel. to Surplus	0%	0%	0%	0%
#12	Estimated Current Reserve Def. To Surplus	0%	0%	0%	0%

IRIS ratio number 6 evaluates the yield on investments compared to annual average cash and total invested assets. The general account's unusual result in 2002 for ratio number 6 reflects the relatively low investment yield environment that prevailed in the financial markets in 2002 and the yields that were available on the general account's invested assets. General account invested assets are comprised of cash and investment grade bonds issued by the U.S government, state jurisdictions, and other political subdivisions.

IRIS ratio number 8 evaluates an insurer's liabilities as a percent of liquid assets. The company's unusual results for ratio number 8 during the years under examination were due to the manner in which segregated account liquid assets and liabilities are accounted for in the general account. The liabilities of the general account used in the calculation of ratio number 8 include all of the net liabilities of the segregated account as a write-in item, whereas the general account's liquid assets do not include the liquid assets of the segregated account. The inclusion of the liabilities of the segregated account in the calculation of the liabilities to liquid asset ratios of the general account resulted in the observed unusual IRIS results for ratio number 8.

**MGIC Assurance Corporation
Segregated Account
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2002**

The NAIC Insurance Regulatory Information System ("IRIS") results for the company's segregated account during the years under examination are summarized in the following table. IRIS data for the company is not available for the year 1998. The unusual IRIS results during the period are denoted with asterisks, and are discussed following the table of IRIS data.

	Ratio	1999	2000	2001	2002
#1	Gross Premium to Surplus	29%	58%	72%	42%
#2	Net Premium to Surplus	29%	58%	72%	42%
#3	Change in Net Writings	0%	112%*	41%*	-36%*
#4	Surplus Aid to Surplus	0%	0%	0%	0%
#5	Two-Year Overall Operating Ratio	73%	84%	84%	84%
#6	Investment Yield	4.4%*	4.8%	4.8%	4.2%*
#7	Change in Surplus	5%	6%	12%	8%
#8	Liabilities to Liquid Assets	29%	43%	47%	47%
#9	Agents' Balances to Surplus	0%	0%	4%	1%
#10	One-Year Reserve Devel. to Surplus	1%	5%	17%	5%
#11	Two-Year Reserve Devel. to Surplus	4%	1%	4%	14%

IRIS ratio number 3 evaluates the year-to-year change in an insurer's net written premium. The company's unusual results for IRIS ratio number 3 in 2000 and 2001 reflect increased premium volume upon the company's commencement of operations and as the company expanded its geographic territory. The unusual result in 2002 was due the company's January 1, 2002 decision to stop writing new business and the run-off policies issued prior to 2002.

IRIS ratio number 6 evaluates the yield on investments compared to annual average cash and total invested assets. The segregated account's unusual result in 2002 for ratio number 6 reflects the relatively low investment yield environment that prevailed in the financial markets in 2002 and the yields that were available on the segregated account's invested assets. Segregated account invested assets are comprised of cash and investment grade bonds issued by the U.S government, state jurisdictions, and other political subdivisions.

Growth and Run-off of MGIC Assurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
1998	\$21,044,112	\$ 3,062,419	\$17,981,693	\$384,645
1999	23,349,052	4,595,378	18,753,674	239,047
2000	28,894,562	9,193,803	19,700,759	222,551
2001	33,019,205	11,560,945	21,458,260	307,084
2002	35,284,592	12,516,380	22,768,212	232,734

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
1998	\$3,254,386	\$3,254,386	\$3,034,631	31.8%	51.5%	83.3%
1999	3,241,377	3,241,377	3,263,621	33.2%	68.1%	101.3%
2000	6,875,633	6,875,633	6,766,334	50.6%	47.8%	98.4%
2001	9,676,944	9,676,944	9,704,615	67.1%	27.5%	94.6%
2002	6,166,529	6,166,529	6,286,269	119.4%	(21.2)%	98.2%

Annual net contingency reserve contributions, required due to annual changes in premiums written, are included in the expense ratio calculations reported above, and contributed to the expense ratios experienced by the company in the years under examination.

The above data reflect the start-up of the company as a direct insurer through 2001 and the exit of the company from issuing new policies in 2002. The company's segregated account had underwriting gains in each year except 1999, and the company had net income in each of the years under examination. The segregated account received paid in surplus contributions from MGIC of \$5 million in 1998 to capitalize the company's commencement of operations as a direct insurance writer.

Reconciliation of Surplus per Examination

The examination did not make any reclassification of or adjustment to year-end balances reported by the company. The company's surplus as regards policyholders as of December 31, 2002 was \$22,768,212.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There was one specific comment and recommendation in the previous examination report. Comment and recommendation contained in the previous examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company's board of directors review executive decisions made on behalf of the company by the parent corporation, and that the board exercise its responsibility to manage the company by taking action on those decisions, by resolution of the company's board of directors

Action — Compliance

Summary of Current Examination Results

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

VIII. CONCLUSION

MGIC Assurance Corporation was acquired by MGIC in 1995. The company redomesticated to Wisconsin and changed its name to MGIC Assurance Corporation effective November 18, 1996. In 1997, all of the issued and outstanding capital stock of MAC was contributed to the MGIC subsidiary, MGIC Surety Corporation. Surety was merged with and into MGIC effective November 30, 2002. Upon the merger of Surety, the assets and liabilities of MGIC Surety Corporation, including 100% of the issued and outstanding capital stock of MGIC Assurance Corporation, transferred to MGIC.

MAC was established to write business lines that complement the residential mortgage guaranty insurance and related business activities conducted by the MGIC companies. During 1997, MAC established a segregated account as a separate fund of the general account, as required by s. 611.24 (1), Wis. Statutes and s. Ins 3.09 (12)(g), Wis. Adm. Code, through which MAC is authorized to conduct junior lien mortgage guaranty business. As of December 13, 2002, the company was licensed in 45 states and the District of Columbia.

MAC initiated writing insurance on second mortgages and home equity lines of credit through its segregated account in 1997, and continued to write new policies through year-end 2001. Effective January 1, 2002, the company ceased writing insurance on new mortgage guaranty risks, and the company's current book of business is comprised solely of renewal premiums on existing policies. The company plans to run-off its existing segregated account insurance risks, and does not intend to resume writing new mortgage guaranty business. Subsequent to examination fieldwork, the Commissioner approved a plan proposed by MAC and MCAC to transfer the mortgage guaranty business of MAC's segregated account to MCAC. The company has not issued any policies of insurance through its general account, and has no general account insurance liabilities.

MAC is subject to two independent Wisconsin statutory requirements for the minimum capitalization required for an insurer. The company is subject to requirements for minimum compulsory surplus and security surplus for insurance business underwritten through the company's general account. The company is also subject to requirements for minimum

policyholder position (surplus), applicable to the capitalization of mortgage guaranty insurance written through the company's segregated account. Each of the capitalization requirements is based on a respective calculation method that establishes capital requirements as a function of the volume of insurance business. As of the time of examination fieldwork, the company was in compliance with each of the two applicable Wisconsin minimum capitalization requirements.

The examination determined that the company is in compliance with the single recommendation that resulted from the previous examination of the company. The current examination did not result in any findings of material exception, and did not result in any reclassification of account balances or adjustment to surplus. As of December 31, 2002, the company reported net admitted assets of \$35,284,592, total liabilities of \$12,516,380, and total surplus as regards policyholders of \$22,768,212.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The current examination did not result in any findings of material exception, and did not result in any recommendations requiring company action or compliance.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Rebecca Easland	Insurance Financial Examiner
Ryan Hanson	Insurance Financial Examiner
Tom M. Janke	Insurance Financial Examiner
Russell Lamb	Insurance Financial Examiner
Randy Milquet	Insurance Financial Examiner—Advanced

Respectfully submitted,

Thomas E. Rust
Examiner-in-Charge